

Message Text

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43

ACTION EUR-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 SP-03

AID-20 EB-11 NSC-07 RSC-01 CIEP-02 TRSE-00 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-03 PA-04

PRS-01 FS-01 ABF-01 DRC-01 EURE-00 AGR-20 /173 W

----- 062918

O R 171700Z MAY 74

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC IMMEDIATE 4520

INFO AMEMBASSY COPENHAGEN

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

SECDEF WASHDC

COMICEDEFOR

CINCLANT

USMISSION NATO

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E.9. 11652: N/A

TAGS: EFIN ETRD ECON IC

SUBJECT: DEVALUATION OF KRONA AND OTHER ECONOMIC MEASURES

1. ICELAND DEVALUED KRONA BY 4 PERCENT EFFECTIVE NOON MAY 17.
ONE US DOLLAR WILL NOW PURCHASE IKR 92.80. PREVIOUS RATE WAS
IKR 89.10 TO THE DOLLAR. SINCE END OF 1973 KRONA HAS BEEN
GRADUALLY DEVALUED 9.9 PERCENT AGAINST DOLLARB

2. LATEST MOVE WAS CAUSED BY PRECIPITOUS DECLINE IN FOREIGN
EXCHANGE RESERVES WHICH ON MAY 14 WERE APPROX. \$30 MILLION,
DOWN 57 PERCENT FROM BEGINNING OF 1974. FROM MAY 1 TO MAY 14
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ALONE, RESERVES DECLINED OVER \$6 MILLION AND IN PAST THREE DAYS

A FURTHER DRAIN ESTIMATED AT \$4-5 MILLION HAS OCCURRED, BRINGING PRESENT RESERVES TO AROUND \$20 MILLION. IN ADDITION, AS A RESULT OF HIGHER OIL PRICES RUSSIANS NOW HAVE LARGE SURPLUS TRADE BALANCE WITH ICELAND IN NEIGHBORHOOD OF \$15 MILLION AND COULD, IF THEY WISHED, DEMAND PAYMENT OF SOME \$10 MILLION AT THIS TIME.

3. GOVERNMENT WILL TONIGHT, OR OVER WEEKEND, ESTABLISH REQUIREMENT THAT IMPORTERS PURCHASING FOREIGN EXCHANGE DEPOSIT FOR 3 MONTHS WITH CENTRAL BANK AN AMOUNT 25 PERCENT ABOVE INVOICE PRICE ON ALL IMPORTS EXCEPT OIL, CERTAIN FOODSTUFFS, AND RAW MATERIALS FOR MANUFACTURING. OTHER MEASURES EXPECTED TO BE INSTITUTED BY GOI EITHER THIS WEEKEND OR IN VERY NEAR FUTURE CALL FOR AT LEAST TEMPORARY SEVERING OF WAGE-PRICE INDEX LINKAGE, A PROGRAM OF EXPANDED SUBSIDIES TO AGRICULTURE AND POSSIBLY OTHER SECTORS, AND PERHAPS SOME FORM OF COMPULSORY SAVINGS SCHEME.

4. WITH ALTHING DISSOLVED, CABINET CAN IMPLEMENT THESE MEASURES AT WILL, BUT THEY WILL BE SUBJECT TO FUTURE ALTHING APPROVAL SOMETIME AFTER JUNE 30 ELECTION. THERE IS SOME DOUBT THAT NEW RATE FOR KRONA WILL SUFFICIENTLY DAMPEN IMPORTS OR ENCOURAGE GREATER REPATRIATION OF EXPORT EARNINGS, BUT TOGETHER WITH OTHER MEASURES, IT IS DEFINITELY A MUCH NEEDED, IF LATE AND HESITANT, STEP IN THE RIGHT DIRECTION.
IRVING

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